Investor Sentiment Report

In response to COVID 19

May 2020

PEVCA

PRIVATE EQUITY AND VENTURE CAPITAL ASSOCIATION, NIGERIA

Background

There has been a plethora of information in circulation detailing the economic and social fallout of COVID -19 world over. Looking inward, the rapid disruptions on account of the virus spread thrust businesses into a difficult operating environment that remains uncertain in many respects but that also requires decision-making adaptable to ongoing developments. With a phased re-opening of the economy already being implemented, our GPs continue to maintain focus on positioning for success.

PEVCA conducted a survey among GPs operating in Nigeria to highlight the challenges being faced and resulting impact on their investment plans along with their portfolio companies. Respondents also shared their recommendations to portfolio companies to best manage the effects of the pandemic on their businesses.

Feedback received reflect the combination of a circulated questionnaire and discussions.

12 out 15 managers reached out to completed the questionnaire and we are thankful for the time taken.

Biggest risks for your portfolio companies

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Top 5

- Liquidity risks/Cashflow/Working capital
- Disruption to supply chain/Logistics or Distribution constraints
- FX risks/Naira devaluation
- Revenue Loss/Demand contraction
- Fragile consumer spend

Other comments

- Pause on planned expansion projects
- Layoffs imminent
- Unplanned facility shutdown
- Viability of Business model disruption
- Government regulations
- Ripple from global recession

Critical areas where GPs are intervening

Managing Liquidity position remains the predominant focus

Liquidity management/ Access to working capital

Fundraising/Debt capital raising

Cost control/Optimization

Support towards Health, Safety, Security & Employee welfare

Business model/Structure review

Talent Acquisition & Retention Strategies in view of COVID 19

Specifics on how portfolio companies are managing liquidity positions

- ✓ Accounts receivables management
- ✓ Cash flow forecasting
- ✓ Liquidity scenario planning
- ✓ Invoice discounting
- ✓ Applying for government intervention funds
- ✓ Investing excess Naira liquidity in short term Naira instruments
- ✓ For companies who have FX obligations, investing excess cash in Eurobonds (short to medium term)
- ✓ Streamlining operations to core needs for the business
- ✓ Restructuring where necessary for operational efficiency
- ✓ Performance management & reviews
- ✓ Post COVID 19 impact scenarios

- ✓ Discussing with lenders for a temporary suspension of interest accruals on all outstanding debts
- ✓ Seeking extension of moratorium on existing credit facility
- ✓ Increased focus on cost optimization:
  - reviewing operational budgets
  - renegotiations with suppliers
  - Addressing FX implications
- ✓ Admin payroll cuts, workforce downsize
- ✓ Deferring non-critical expenditures/ Capex projects, negotiating payables
- ✓ Evaluating M&A opportunities

Other support measures for portfolio companies

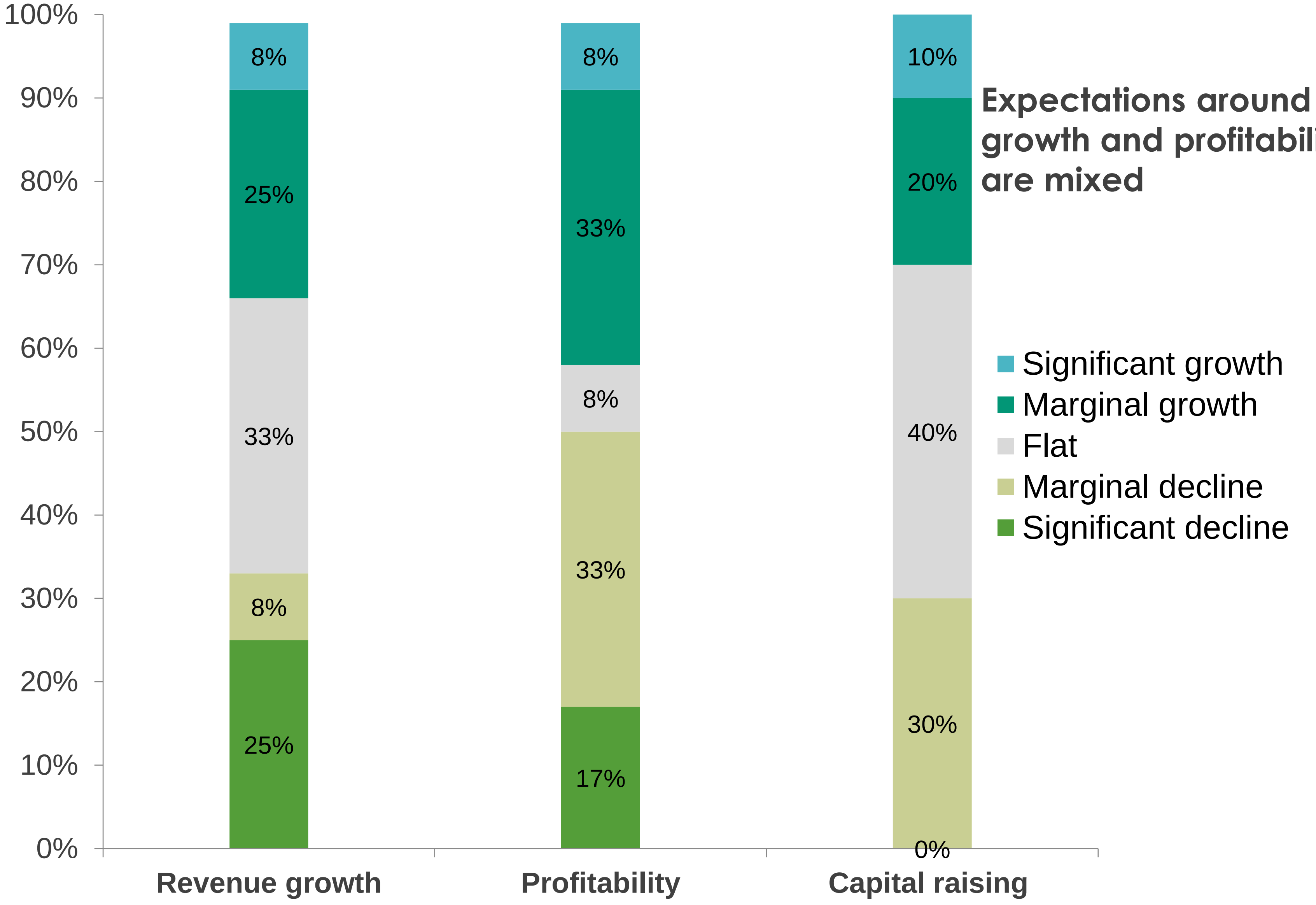
25% **GPs whose portfolio companies have accessed at least one of the government's intervention funds. These include:**
- Reduced interest rate on CBN facility
- Access to SME Fund
- Access to Healthcare intervention Fund

42% **Encourage cross portfolio support among their portfolio companies. How?**
- Co-sponsoring on COVID-19 initiatives
- Learnings from intervention fund application shared across
- Leverage on expertise of key persons and encourage professional relationships across companies
- Portfolio companies combining their offerings into new product offerings for target markets

58% **GPs whose portfolio companies are either considering or have commenced furloughs, layoffs, compulsory leave or wage/salary adjustments.**
- On average, **30%** of companies across their portfolio have activated these measures

58% **Expect to draw additional capital to support their portfolio companies**
- Of this set, a majority expect to request for intervention from LPs

GP Outlook for portfolio companies over next 3 – 6 months



Expectations around growth and profitability are mixed

Recommendations made to senior management of portfolio companies

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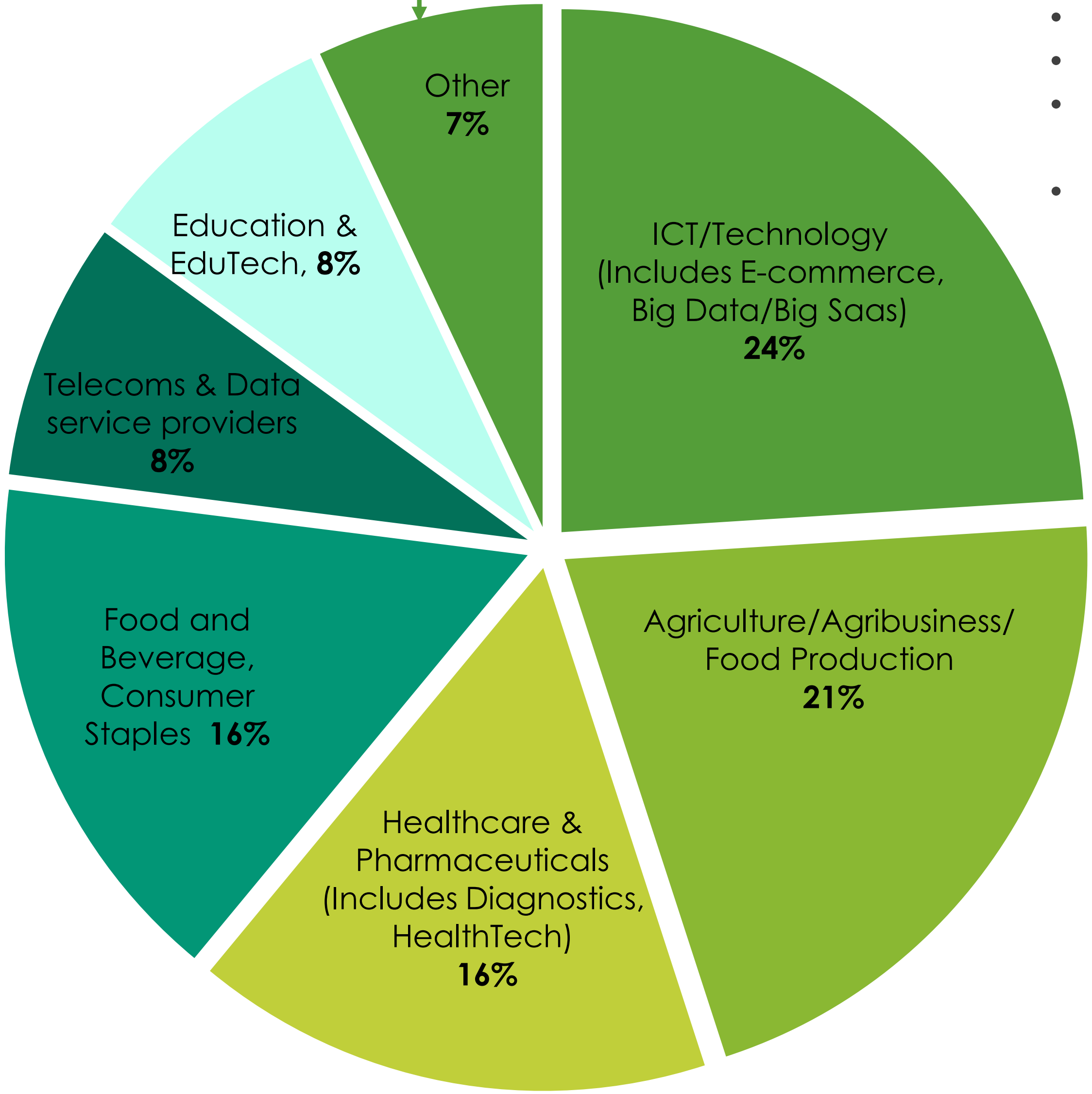
"Explore alternative revenue generating activities"	*"Prioritize formal over informal sales channels"*
"Communicate with staff to manage fears relating to mass retrenchment or reduced wages"	*"Constitution of a crisis management committee & regular virtual meetings"*
"Scenario Switching (Due to the fast paced nature of this period, base case might become best case scenarios)"	*"Scenario forecasting & aggressive monitoring"*
"(Prioritise) Health, Safety and Wellness" and keep monitoring"	"Modify business models"
"Increased security for factory and business locations, as well as for goods in transit"	"Install skeletal teams where possible and reduce salaries across board to extend company runway"
"Implement cost cutting/resource allocation measures by prioritising spending that is linked with current revenue generation"	"Where possible, pivot operations to products and services in high demand during the pandemic"
"Take advantage of new revenue areas from the increase in healthcare product and services demand"	"Minimize cash burn by postponing previously planned non-essential expenditure"
"Extend business continuity planning to cover lockdown period and post-lockdown recovery"	"Renegotiate contract terms with vendors and customers"

Sectors considered attractive and resilient



Other

- Media & TMT
- Financial services and Fintech
- Energy services
- Businesses that play an import substitution role
- Climate focus

Sectors hardest hit within GPs *current* portfolio

- Hospitality
- Oil & Gas
- Media and Entertainment
- Real Estate
- QSR
- Travel and Tourism
- Commodity linked
- Projects with dollar denominated capex and local currency inflows
- E-commerce (Travel & Events) and Outdoor media
- Insurance
- Retail & Retail services

Impact on Fundraising & Outlook on deal flow prospects

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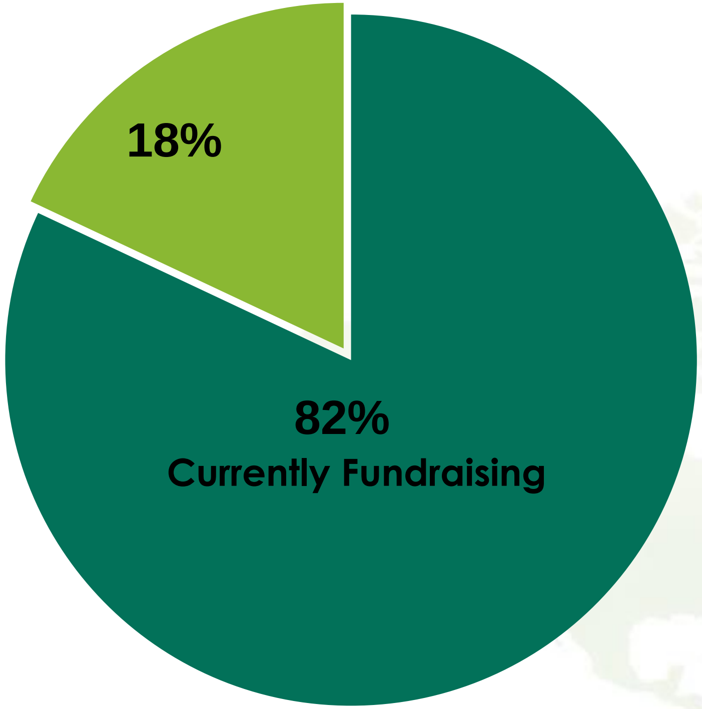
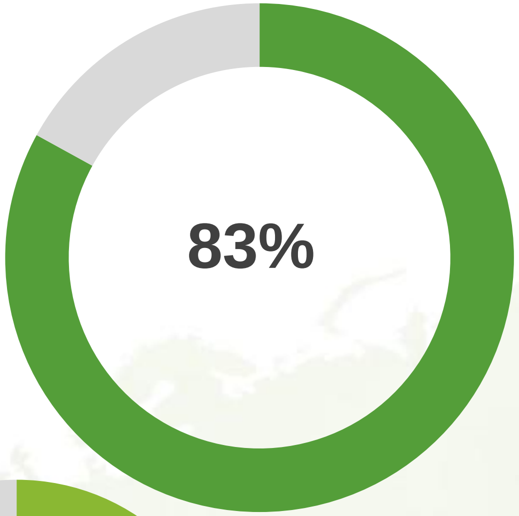


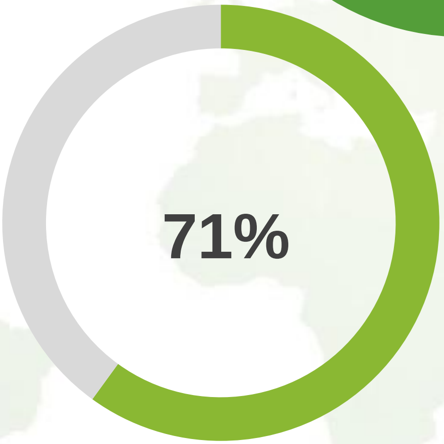
- Over 70% report limited to significant disruption to fundraising process as timelines are being amended.
- For GPs about to commence new fund launch, there is consideration to pause.
- Virtual DD with existing LPs has been easier to manage



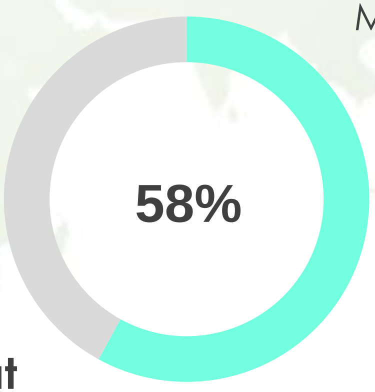
Majority of GPs expect to see strong prospects for deal opportunities as a result of COVID's impact.

Expectations are on the back of:

- More companies needing additional capital
- Consequential correction to an overvalued market. Lower entry valuations.
- Spike in demand in certain sectors as a result of the pandemic
- Possible consolidation activity in a number of industries. Some fundamentally strong businesses are likely well positioned for M&A opportunities.



Ratio of GPs within investment period that do not expect to request for an extension



Granted at different phases, 58% of GPs are still within the investment period of their funds

Deal flow prospects contd.

	% of Respondents
Still actively evaluating deals	92%
Deal pipeline has not changed	50%
Deal evaluation process has slowed down	50%
Deal pipeline has been negatively affected	8%

Respondents most likely to allocate capital towards	
Exploring new investments	83%
Business continuity within portfolio	33%

Impact on transactions and exit

70% were in the process of closing at least one transaction before the lockdown.

While timelines have been revised, all are still generally on course to closing on existing transaction(s).

56% have seen a slowdown in exit negotiations at least for the short-term.

Considering fund life cycle, most do not expect to request for a fund term extension.

Likely action for portfolio companies close to exit:
70% are continuing exit plans
30% are deferring plans

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